ISP Profile: 1stUp.com

CMGI's free ISP is a frugal master of affinity marketing, the prince of tech utilitarianism. For example, everyone knows that ads are key to the free ISP business model. 1stup.com has software that allows advertisers to deliver TV ads through flash over the Web.

by Patricia Fusco
of internetnews.com

This week 1stUp.com made its flash-based Web commercials a working reality. While several free dial-up providers ceased operations this month, and NetZero altered its business plan, 1stUp.com is thriving as a fee-free Internet service facilitator.

CMGI

Can the CMGI-supported interactive service buck the trend of folding free providers? Charles Katz, 1stUp.com chief executive officer says yes, its revenue streams are diverse and 1stUp.com focuses on making the most of new technology, not marketing its free dial-up services.

"Our business model is different than ad-based free Internet service providers," Kats said. "While we compete on some levels of free dial-up access, we do not incur marketing costs. We rely on our partners to market their free dial-up services, so we provide the technology behind the service."

It doesn't hurt to have CMGI, Inc. as a partner. With 70 companies in its online realm, CMGI is 1stUp.com's link to Web marketing companies like AdForce, Engage, and YesMail.com.

The amalgamation of alliances between big Web brands made 1stUp.com a premier service partner, providing free-dial up services to companies like Lycos and Alta Vista (which were owned by CMGI) as well as IBM and Ameritrade, among others.

This is not just an exercise in name dropping. The fact is that 1stUp.com has lured top companies to utilize its services. Katz said it's a credit to the firm's success.

"Our partners are not going to risk their brand names on anything less than superior service," Katz said. "Private label access clients are more likely to go with an access provider that offers quality content pertinent to them."

Advertising still key to free ISP model

"The key to our success is being able to reduce costs and increase revenues," Katz said. "Banner ads are much maligned by the ad industry, but they'll be around for a long time. Some advertisers are already transitioning to our new Web commercials. 1stUp.com will continue to thrive and survive."

Indeed, 1stUp.com's Web commercials are an alluring medium for advertisers. It's not just a matter of reaching 1stUp.com's 4 million-plus users. Advertisers can take ads made for television and readily translate moving pictures into 1stUp.com's flash delivery process to produce Web commercials. This cost-cutting feature has peaked the interest of Warner Bros., Sprint Corp., Cisco Systems, Inc., and other advertising intense online entities.

Katz said advertisers are quick to embrace news methods of ad delivery and sponsors are lining up to embrace its new delivery method.

"Advertisers are used to buying into new ad technologies," Katz said. "Pioneering new mediums like our Web commercials can generate big revenue, in addition to our high degree of ad targeting, we can flush out advertising deals because we can target different ads to different people."

1stUp.com leverages current flash technology to fuel the Web commercials. The programming permits 1stUp.com to do a lot with a small amount of data, so big bandwidth is not required.

In exchange for users giving up screen real estate for branded free Internet access, 1stUp.com has managed to build a network of alliances that supports more local dial-up numbers in North America than America Online.

IstUp.com utilizes CMGI-owned NaviPath (also a CMGI company formerly named NaviNet: see the ISP Planet profile here), Level 3, Cable & Wireless, and a dozen other providers to offer a grand scale of local access. 1stUp.com can provide Internet access to 95 percent of the U.S. and Canada from more than 4,500 local dial up numbers.

The company is big for a two-year-old

October 1998 was the official birth date of 1stUp.com. In less than 2 years, the company has earned 4 million users through affinity programs with more than 130 distribution partners. Alta Vista was the first to sign-up with 1stUp.com in 1999, which remains a building year for the firm. Most of its new clients have been added this year.

The company has not spent much to market the free dial-up services, but it partners have.

Beansprout.net is one of 1stUp.com's newest partners. The online community that connects parents with their pediatricians and child care providers is obliged to distribute 500,000 CD's every month for one year. Outlets include doctor's offices and hospitals. Imagine, a proud new Father embracing his newborn with a 1stUp.com start kit in his hands. The deal has the potential to reach 6 million new users in the cradle.

Katz said it is one of the first large free service providers to really embrace this efficient method of distribution.

"There is a big difference in our product offering, because we don't spend our money to market our services," Katz said. "We realized early on that we could effectively distribute our services though other companies. That allows us to focus on the system and technology used to deliver high-quality Internet access."

What its partners pay for Net services varies because 1stUp.com has a flexible payment structure. Some of the deals pay an up-front fee, others go with ongoing monthly payments, and the price depends on the level of marketing commitment the different companies are will to make.

Statistics are not provided

1stUp.com does not release usage statistics to the public, so, of its 4 million subscribers actual usage data remains illusive. Katz said its average use runs consistent with the free service segment, at about 40 to 50 percent each month.

The company does track advertising click-through rates. Katz said 1stUp.com's click through rates average 2 to 8 percent, substantially higher than the industry average of .5 percent. Its new Web commercials post click-throughs at the higher end of the scale.

Katz said that developing new advertising mediums would help fuel other services to expand 1stUp.com portfolio of online solutions.

"As we get better and better at providing top-notch Internet services, and add new ad technologies and new advertisers, we will be able to expand our services to include other product offerings," Katz said.

What's next

No, 1stUp.com won't be offering free digital subscriber line services anytime in the near future, but it is working to expand its wireless service portfolio, and quietly added a very interesting new fee-based dial-up service.

Katz said the fee-based program was added to its service line-up at its partner's requests.

"One thing we do is free dial-up services, but 1stUp.com is a complete Internet solutions provider for companies," Katz said. "We quietly

rolled out paid for dial-up services because our customers wanted it as an option. We will rollout broadband for clients to resell as well, and intend to offer wireless services."

Katz said that 1stUp.com users first accessed dial-up services as an alternative to fee-based providers, but that the pattern of free ISPs being second to fee-based ISPs has changed.

"We're finding that customers originally used us as a 2nd source for connectivity, at fist," Katz said. "Now people are more comfortable with our service. What we're seeing is offering consumers a full range ISP services, some for free, works well for our diverse subscriber base. It's what they want, just like TV is free, but you can upgrade to premium programming if you like."

The television connection

The first free ISPs appeared in 1996, born on the theory that the Internet could operate much like commercial television, with ad sales generating enough revenue to cover costs and turn a profit.

But high bandwidth costs and weak ad sales forced pioneers like Hypernet and Freeride out of business, and more recently Frewwweb and SpyNet. NetZero and several other ad-based firms remain standing and keep adding boatloads of new users every day. But the free ISPs can not stand still, they have to move on, diversify services, and not rely on ad revenues as a single stream toward eventual profits.

NetZero may have landed several deals and investments totaling more than $200 million this year, but the "defender of the free universe" still has to thwart attacks on its market share by Spinway and its Kmart alliance, as well as hundreds of other free ISP start-ups.

As a result of market pressures piling up, NetZero has quietly begun partnering with companies that want to create their own free ISP, just like 1stUp.com. NetZero remains committed to its free dial-up services, but it's looking for ways to take a drink from the revenue stream that 1stUp.com dominates.

The major difference is that NetZero is assuming the costs of its marketing program, and prime time ads on the NBA finals aren't cheap, while 1stUp.com allows its partners to bring a branded, free service to market.

According to Jupiter Communications, companies like 1stUp.com that create sponsored private label services are forecasted to take care of as much as 70 percent of the free ISP market by 2003. Currently the same branded free services own about 30 percent of the market, while less than 10 percent of U.S. Internet users log on through an ad-based ISP.

In the meantime, 1stUp.com stands as the frugal master of affinity marketing and the tech-savvy prince of Net utilitarianism.

—End

E-mail the Editors of ISP-Planet

Here's the Pitch: A Branded Browser

By Jason Krause
Issue Date: Dec 03 1999

Brand3, an Internet service provider based in Los Angeles, Calif., came calling with news of its latest $2 million financing round from TransCosmos, Coleman, and Angel Investors. Company executives were also eager to show off the service. Brand3 claims to be the first free ISP to secure funding before going live with its service.

The Pitch: Say your company wants to give its customers free Internet access. Brand3 would be your partner. The company's software allows you to brand the ISP with your company's logos, information and e-commerce interface.

The Presenters: Ryan Gilbert, executive VP of business development; Mark Gibbs, CTO; and Andrew Sherman, executive VP of retail and e-commerce.

So what exactly are these guys selling? Brand3 is the latest of the "free ISP" breed. But there's a twist. You won't find advertisements served through your browser, as is normally the case. Instead, the software, called Gluon, fuses a company's logo into the user's browser, e-mail and desktop. So a bookseller, for example, might offer its customers the Brand3 service as a way to keep its logo high on the user's desktop.

How Did They Present It? Coffee and conversation at **Starbucks** (SBUX). Straight from a meeting with potential customers, the guys were wearing suits, except for Gilbert, who, in typical Silicon Valley garb, was jacketless. No laptops, PowerPoint demo, or slide show (whew).

Best Line: "Any nut with a checkbook can give away Net access. But even with free access, if the service is shit, you'll piss your brand away."

Worst Line: "We're defenders of your brand." (A reference to free ISP NetZero's "Defenders of the Free" campaign.)

What Happened: The guys at Brand3 are great pitchmen, if a bit over the top at times. Mark Gibbs writes two weekly items for Network World magazine. He's adept at explaining business models. Ryan Gilbert, on the other hand, goes for the hard sell. A couple of times Gibbs and Andy Sherman squirmed and asked that some of Ryan's more over-the-top quotes not be

printed. But in this business, where pitchmen tend to be so bland, his exuberance was refreshing.

Baffled Journalist's Main Problem: It's hard enough to make money when people pay for their Internet access, and even harder when you rely on advertising revenue, like competitor NetZero does. Brand3 is expecting partners to use their service, even though it offers neither subscription or ad-based revenue models. And that seems like a lot to expect.

Kmart and Wal-Mart to stalk the Web

By Julie Landry
December 16, 1999

Attention Kmart shoppers: today's blue-light special is a new company called Bluelight.com.

Kmart on Wednesday announced it abandoned an in-house e-commerce initiative in favor of establishing an independent Internet company called Bluelight.com , backed by investments from Softbank Venture Capital and other strategic investors. It's an important move considering an anticipated plan by Wal-Mart to launch an improved Web site next month and partner with America Online .

The new Web strategies may finally breathe new life into a pair of creaky retailers, who have yet to figure how to make a splash on the Internet. For Kmart especially, Bluelight.com may help awaken the slumbering giant, but the company remains far from where it needs to be.

With 2,177 stores serving 180 million customers, Kmart is a well-known name offline. However the giant retailer over the past decade has fallen under the shadow of an aggressive Wal-Mart, who commanded a 22 percent market share last year. By contrast, Kmart held an 8 percent share of the $20 billion discount retail market, according to Discount Store News , an industry trade publication.

In a recent report, Jeff Edelman, a Painewebber analyst, wrote: "Kmart has had a lot of logistics and distribution problems in the past and we believe the jury is still out on how much of the discount store product mix will ultimately be purchased online." Mr. Edelman rates Kmart stock "neutral," compared to an "attractive" recommendation for Wal-Mart. Many analysts believe Wal-Mart eventually will perform well on the Web because of the company's sophisticated distribution and logistics network.

NET STRATEGY

To convince Kmart shoppers to get online and use the new site, Bluelight.com formed an alliance with Yahoo and plans to offer free cobranded Internet access. The service was developed by Spinway.com , a startup in Palo Alto, California, that was funded in part by Softbank. The service will be offered free by Bluelight.com and also will be sold on CDs in Kmart stores early next year. The deal calls for Yahoo to serve as the service's default start page. According to Jupiter Communications retail analyst Michael May, "reaching consumers before they've developed loyalties online is a smart strategy for any portal."

Kmart's target consumers are lower- and middle-class women with children under age 18, most of whom currently don't have Internet access, the company says. According to a Lehman Brothers report, Kmart's low to middle income demographic, largely ignored by the Internet marketers, represents a huge market of potential Internet users.

Targeting lower-class demographics is an unusual tactic for Internet companies, who have traditionally sought wealthier consumers. Going after Kmart customers is an obvious play, according to Evie Black Dykema, an analyst with Forrester Research . Ms. Dykema says: "But featuring the Bluelight.com name on the Yahoo portal will convey a mixed message to hipsters who used to think of Yahoo as cool. Offering Kmart customers free access is offering them a cart without a horse -- what good does free access do them if they don't have computers?"

She adds: "Wal-Mart is the brand of mass America, while Kmart strikes one notch below the mass market. The portal who partners with Wal-Mart will access a goldmine of starry-eyed Internet newbies, while Yahoo wastes resources attempting to reach the unreachable -- sidelined citizens who often lack computers and disposable income."

Merrill Lynch analyst Glenn Salzman believes the deal could signal a turnaround for Kmart, whose stock price has suffered due to "investor psychology" -- a concern that Kmart simply does not have the brand name, distribution expertise, or overall corporate culture to compete with Wal-Mart and Target ." In his recent report, Mr. Salzman said that Kmart, because of its new Internet strategy, could be "blazing trails again in the discounting world" and might reverse the store's stigma as a "retailing dinosaur."

BIG BACKERS

Kmart owns about 60 percent of Bluelight.com, with $62.5 million pitched in from Softbank, Yahoo, and Martha Stewart Living Omnimedia. Bluelight.com's headquarters will be based in San Francisco, a far cry from Kmart's home of Troy, Michigan. Kmart CEO Floyd Hall and another Kmart executive will occupy two of the five board seats.

Structuring Bluelight.com as a stand-alone company was crucial to avoiding a replay of the crumbled partnership between Toys R Us and Benchmark Capital . Fran Meier, Bluelight.com's vice president of marketing, says the company spent months going over potential brick-and-mortar and e-commerce conflicts with Kmart and the Softbank team. She says Bluelight.com's team has extensive experience building other retail sites, including J. Crew .

Bluelight.com's product mix is also expected to be different than Kmart's current meager online offerings, including an additional 10,000 items such as appliances and outdoor equipment, according to Kmart CEO Floyd Hall. Initially, Bluelight.com will outsource its fulfillment systems, but develop its own separate operations over time. The result is a strange relationship between Kmart and Bluelight.com, with Bluelight.com taking advantage of the Kmart name and relationships but not its established warehouse operations or buying power.

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